

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-11 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-15 OES-07
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R 151918Z MAR 78
FM AMCONSUL MONTREAL
TO SECSTATE WASHDC 167
INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC

UNCLAS SECTION 1 OF 2 MONTREAL 503

E.O. 11652: NA
TAGS: ENRG, ECON
SUBJECT: SPEECH BY HYDRO-QUEBEC PRESIDENT

REF: A) 77 MONTREAL 2006, B) 77 MONTREAL 1849,
C) 77 MONTREAL 1658, D) MONTREAL 349

BEGIN SUMMARY: IN SPEECH YESTERDAY, HYDRO QUEBEC PRESIDENT
ROBERT BOYD CALLED ATTENTION TO NEED FOR QUEBEC TO REDUCE
ITS DEPENDENCE ON FOREIGN OIL AND INCREASE ITS OWN ENERGY
SUPPLIES. GOAL IS TO RAISE ELECTRICITY'S SHARE OF QUEBEC'S
ENERGY BALANCE FROM PRESENT 20 PERCENT TO 45 PERCENT BY YEAR 2000.
HYDRO QUEBEC WILL SOON ANNOUNCE FORMATION OF AN INTERNATIONAL
SUBSIDIARY TO MARKET UTILITY EXPERTISE ABROAD. PLANS FOR
REORGANIZATION OF HYDRO QUEBEC'S CORPORATE STRUCTURE, TO
RESPOND TO CHARGES THAT HYDRO HAS TOO LONG OPERATED AS
STATE WITHIN STATE, WILL ALSO BE ANNOUNCED IN NEAR FUTURE.
END SUMMARY.

1. IN A SPEECH YESTERDAY TO MONTREAL CHAMBER OF COMMERCE,
HYDRO QUEBEC PRESIDENT ROBERT BOYD EMPHASIZED NEED FOR INCREASING
QUEBEC'S ABILITY TO SUPPLY ITS OWN ENERGY REQUIREMENTS. WITH
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QUEBEC'S ENERGY ACCOUNT NOW 70 PERCENT DEPENDENT ON OIL, BOYD
POINTED TO DANGERS OF POSSIBLE INTERRUPTIONS IN FUTURE SUPPLIES.
GOAL WOULD BE TO REDUCE PERCENTAGE OF HYDRO CARBONS IN QUEBEC'S
ENERGY BALANCE FROM PRESENT 76 PERCENT TO ABOUT 55 PERCENT BY YEAR
2000, RAISING ELECTRICITY'S SHARE FROM PRESENT 20 PERCENT TO 45
PERCENT.

2. BOYD SAID THAT HYDRO QUEBEC WAS TAKING STEPS TO PREPARE FOR DIFFICULTIES THAT WILL BE ENCOUNTERED IN CAPITAL MARKETS IN COMING YEARS, WHERE ONLY BORROWERS WITH BEST CREDIT RATINGS WOULD BE WELCOMED. ACCORDINGLY, HYDRO WAS INCREASING ITS ABILITY TO GENERATE INTERNAL FUNDS. FROM LEVEL OF 10.2 PERCENT IN 1973, HYDRO'S SHARE OF FUNDS OBTAINED THROUGH INTERNAL FINANCING WILL RISE TO ABOUT 22 PERCENT IN 1978. RECENT INCREASE IN ELECTRIC RATES GRANTED BY GOVERNMENT WOULD ALLOW HYDRO TO REDUCE ITS EXTERNAL FINANCING REQUIREMENTS BY SOME DOLS 50 MILLION IN 1978. IF SIMILAR RATE INCREASES WERE GRANTED HYDRO FOR NEXT TWO YEARS, EXTERNAL FINANCING REQUIREMENTS, BOYD SAID, WOULD BE CUT BY OVER HALF A BILLION DOLLARS.

3. WITH REGARD TO CAPACITY, BOYD SAID THAT HYDRO QUEBEC CURRENTLY COULD CALL ON CAPACITY OF ABOUT 15,000 MEGAWATTS TO MEET QUEBEC REQUIREMENTS. COMPLETION OF FOUR GENERATING STATIONS IN JAMES BAY COMPLEX WOULD ADD MORE THAN, 10,000 MEGAWATTS. BEYOND JAMES BAY, HYDRO ESTIMATED THAT AN ADDITIONAL 25,000 MEGAWATT POTENTIAL REMAINED IN QUEBEC, OF WHICH ABOUT 60 PERCENT WOULD BE ECONOMICALLY FEASIBLE TODAY.

4. IN SPEAKING OF ECONOMIC BENEFITS TO QUEBEC FROM FURTHER HYDRO ELECTRIC DEVELOPMENT, BOYD SAID THAT OF EACH DOLS 100 IN 1980 INVESTED FOR GENERATION OF ELECTRICITY, DOLS 76 WOULD BE SPENT IN QUEBEC, AND DOLS 24 WOULD FLOW ABROAD. BUT, FOR A GALLON OF NUMBER TWO FUEL OIL, ONLY 20 PERCENT OF COST REMAINED IN QUEBEC, UNCLASSIFIED

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WHILE 80 PERCENT WAS TO PROFIT OF FOREIGNERS. FOR GAS, CORRESPONDING FIGURES WERE 31 AND 69 PERCENT. WITH REGARD TO CONSTRUCTION COSTS, IT WAS ESTIMATED THAT SALARIES ACCOUNTED FOR 34 PERCENT OF HYDRO ELECTRIC CONSTRUCTION COSTS.

5. PRIOR TO SPEECH, JOURNAL DE MONTREAL HAD REPORTED THAT BOYD WOULD ANNOUNCE THE FORMATION OF A NEW SUBSIDIARY, HYDRO QUEBEC INTERNATIONAL, WHICH WOULD MARKET HYDRO QUEBEC EXPERTISE ABROAD. ARTICLE SAID THAT CANADIAN ENGINEERING FIRMS, WHICH HAD WORKED HARD TO DEVELOP MARKETS ABROAD, WERE UPSET BY RUMORS OF SUCH AN UNDERTAKING BY HYDRO QUEBEC. BOYD DID NOT ADDRESS ISSUE DURING HIS SPEECH, BUT TOLD THE CG THAT HE WOULD BE SPEAKING ON THIS TOPIC IN NEAR FUTURE.

6. COMMENT FIGURES USED BY BOYD DO NOT DIFFER SIGNIFICANTLY FROM DATA THAT WE HAVE SUBMITTED IN REFTELS. BOYD APPEARS, HOWEVER, TO HAVE FUDGED A BIT IN SPEAKING ABOUT HYDRO QUEBEC'S IMPROVED CAPACITY TO MEET ITS FINANCIAL REQUIREMENTS FROM INTERNAL SOURCES, AS REVIEW OF PAST FINANCIAL STATEMENTS INDICATES THAT HYDRO HISTORICALLY HAS MET FROM 22 PERCENT TO 35 PERCENT OF ITS FINANCIAL REQUIREMENTS THROUGH INTERNAL GENERATION. BOYD MAY ALSO BE SOMEWHAT OPTIMISTIC REGARDING PROVINCIAL GOVERN-

MENT'S

RECEPTIVITY TO HYDRO'S REQUEST FOR ANNUAL 20 PERCENT RATE INCREASES FOR NEXT TWO YEARS. WITH ANNUAL REVENUES APPROACHING DOLS 1.5 BILLION, INCREASES OF 20 PERCENT IN RATES REPRESENT A LOT OF MONEY, AND WHILE HYDRO HAS ALWAYS OPERATED IN AN UNUSUALLY FAVORABLE REGULATORY ENVIRONMENT, IT WOULD NOT BE UNREALISTIC TO EXPECT SOME STIFFENING IN GOVERNMENT'S ATTITUDE.

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7. WE HAVE BEEN TOLD THAT REPORT IN JOURNAL DE MONTREAL IS CORRECT, THAT HYDRO WILL SOON ANNOUNCE THE FORMATION OF AN INTERNATIONAL SUBSIDIARY WHICH WILL SERVE AS A CONSULTING ENGINEERING FIRM FOR ELECTRICITY PROJECTS IN MID EAST AND LDC'S. CONCENTRATION WILL BE ON SYSTEM PLANNING AND DESIGN, TRANSMISSION, AND HYDRO-ELECTRIC PROJECTS. LOCAL ENGINEERING FIRMS WILL BE UPSET, BUT HYDRO BELIEVES IT HAS SPECIAL EXPERTISE, WHICH ONLY IT CAN MARKET. FOR FURTHER JUSTIFICATION, HYDRO POINTS TO ACTIVITIES OF CANADIAN NATIONAL RAILWAYS, A CROWN CORPORATION, WHICH HAS BEEN ACTIVE IN PROVIDING INTERNATIONAL CONSULTANCY SERVICES FOR SOME TIME.

8. FINALLY, WE ARE TOLD THAT PLANS FOR CORPORATE REORGANIZATION OF HYDRO QUEBEC ARE ESSENTIALLY COMPLETE. AS COMPARED TO PRESENT STRUCTURE COMPOSED OF PRESIDENT, VICE PRESIDENT, AND THREE COMMISSIONERS, NEW STRUCTURE WILL INCLUDE ELEVEN DIRECTORS (OF WHICH 3 WILL BE FULL TIME EMPLOYEES), A FULL TIME CHAIRMAN, WHO WILL BE LOW PROFILE AND BROUGHT IN FROM OUTSIDE, A PRESIDENT AND CHIEF EXECUTIVE OFFICER (PROBABLY ROBERT BOYD), AND A PRESIDENT (PERHAPS GUY MONTY) AND A FULL TIME DIRECTOR FOR

JAMES BAY ENERGY CORP. THERE APPARENTLY WILL BE NO REPRESENTA-
TIVES, AS WAS EARLIER PROPOSED, FROM LABOR, CONSUMERS, OR
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HYDRO-QUEBEC NON EXECUTIVE STAFF. REORGANIZATION WAS UNDERTAKEN
BY PROVINCIAL GOVERNMENT TO RESPOND TO LONGSTANDING CHARGES
THAT HYDRO QUEBEC WAS A CLOSED CORPORATION, A LAW INTO ITSELF,
WHICH DID AS IT PLEASED WITHOUT REGARD TO WISHES OF GOVERNMENT
OR PEOPLE IT SERVED.
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